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KELLEY DRYE & WARREN LLP

A LIMITED LIABILITY PARTNERSHIP

1200 19TH STREET, N.W.

SUITE 500

WASHINGTON, D.C. 20036

(202) 955-9600

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FACSIMILE

(202) 955-9792

www.kelleydrye.com

DIRECT LINE (202) 887-1230

E-MAIL: Gmorelli@KelleyDrye.com

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MAR 13 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

March 13, 2001

Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, SW
Room TWB-204
Washington, D.C. 20554

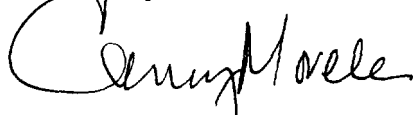
Re: Ex Parte Presentation in CC Docket No. 96-98

Dear Ms. Salas:

Today, Joe Gillan and I, on behalf of the Promoting Active Competition Everywhere ("PACE") Coalition, met with Common Carrier Bureau Chief Dorothy Attwood and Michelle Carey, Glenn Reynolds, and Jared Carlson of the Common Carrier Bureau regarding the above-referenced proceeding. During the meeting, we discussed proposals urging modification of the current rule governing when and where unbundled local switching ("ULS") must be made available to competitors. The attached materials were distributed during the meeting.

In accordance with Section 1.1206 of the Commission's rules, an original and one copy of this letter is being filed with your office.

Sincerely,


Genevieve Morelli

cc: Dorothy Attwood
Michelle Carey
Glenn Reynolds
Jared Carlson

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JDE

Members of the PACE Coalition have invested capital, created jobs and brought needed innovation and competition to a forgotten customer segment – the small business and residential consumer.

- * Over \$1.8 billion of invested capital.
- * More than 7,500 new jobs.
- * Serving more than 750,000 small business and residential customers.
- * Quality customer care, new software features, advanced data services, innovative packaging and pricing.

Redlining the Small Business Market Will Harm Competition for All Small (i.e., Analog-Based) Customers – Residential and Business Alike

- * Unbundled local switching entry strategies give rise to substantial costs that are common to residential and small business customers.

COMPANY	Sales, General & Administrative (\$ 000s) ¹	SG&A Per Line
Birch	\$41,576	\$194.08
ZTEL	\$51,386	\$151.14
ITC^Deltacom	\$28,259	\$124.68
Average	\$40,407	\$155.24

- * If the Commission desires residential and small business competition at *all*, then it must permit entry strategies capable of supporting entry in *both* markets to achieve the necessary economies of scale and scope to compete.

¹ Source: Most recent quarterly financial results posted by the company on the Internet (Birch as of 3rd Q 2000, Z-Tel and ITC^Deltacom as of 4th Q 2000).

The Commission Should Discount Impairment Claims by Entrants That Ignore the Residential/Small Business Market

- * Time-Warner Telecommunications' average customer has 48 lines and it is restricted from even offering residential services until 2003.
- * XO is successfully migrating its strategy upstream to larger customers. XO's average voice-grade equivalent (VGE) increased from 51.9 lines per customer in 4th Q 1999 to 127.8 lines per customer by 4th Q 2000. Data now represents 54% of XO's revenue, compared to 25% at the end of 1999.
- * Although CBeyond *claims* that it can serve any business customer, it only *intends* to serve customers requiring a DS-1.
- * While Allegiance whispers it would be harmed by UNE-P, it continues to expand into markets (e.g., San Antonio) where UNE-P is available without restriction. In addition, Allegiance reports high gross margins in markets where UNE-P is most active.

The Commission Should Discount Impairment Claims of Incumbents That Ignore the Residential/Small Business Market Out-of-Region

- * GTE first entered out-of-region markets targeting the consumer and small business (3-50 employees) market. GTE concluded that customer acquisition and provisioning costs are too high and abandoned the market.
- * GTE and Bell Atlantic merge so that they may aggressively compete out-of-region. Verizon closes down the offering of voice and data bundles outside its territory.
- * Ameritech enters St. Louis, only to abandon the effort and merge with SBC.
- * SBC and Ameritech claim that their merger will make possible a national-local strategy, only to shut down entry (in some markets within weeks of entering).

While ILECs must be ordered to compete through merger conditions, the PACE Coalition seeks only the tools to compete as promised by Congress.

February 6, 2001

United States
Telecommunications
CLECs

XO Communications (XOXO - \$23 3/4) 1 - Strong Buy

Earnings Review
4Q00 Follow Up

Daniel Zito
1.202.452.4748
dzito@lehman.com

Investment Conclusion

- While the shares have pulled back on lowered 1H01 guidance, and concerns over the company's ability to ramp in 2H01 in a difficult macro climate, underlying operational fundamentals remain strong.

Summary

- Following up on our note from this morning, we have provided additional details on XO's progress on migrating upstream to larger customers with continued emphasis on data services and XO's focus on driving on-net revenue growth.
- VGEs/customer +13%, revenue/customer +4%, 8% decline in revenue per VGE demonstrate the company's migration to larger customer base.
- Fibered buildings produce 4.5 DS3s per building, 28x capacity than off net buildings demonstrating XO's ability to drive on-net sales.

EPS (FY 12/31)

	2000		2001		2002		% Change	
	Actual	Old	New	St. Est.	Old	New	2001	2002
1Q	(0.80)	(1.37)E	(1.37)E	(1.34)E	--E	(1.39)E	0.00E	--
2Q	(0.95)	(1.38)E	(1.38)E	(1.35)E	--E	(1.41)E	0.00E	--
3Q	(1.20)	(1.42)E	(1.42)E	(1.37)E	--E	(1.43)E	0.00E	--
4Q	(1.29)	(1.46)E	(1.46)E	(1.37)E	--E	(1.46)E	0.00E	--
Year	(4.24)	(5.63)E	(5.63)E	(5.47)E	(5.82)E	(5.90)E	0.00E	--
P/E								

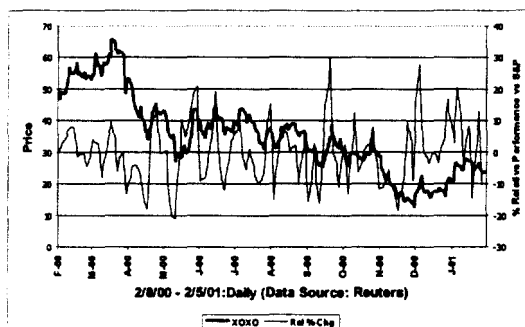
Market Data

Market Cap	\$7.2B
Shares Outstanding	305.1MM
Float	--
Dividend Yield	--
Convertible	Yes
52 wk Range	66 - 12

Financial Summary

Revenue FY01	\$1.4B
Five-Year EPS CAGR	--
Return on Equity FY01	--
Current BVPS	\$8.58
Debt To Capital	62.4%
Disclosure(s)	C

Stock Overview



Rating

New: 1 - Strong Buy
Old: 1 - Strong Buy

Target

New: \$54
Old: \$54

Summary. While the shares have pulled back on lowered 1H01 guidance, and concerns over the company's ability to ramp in 2H01 in a difficult macro climate, underlying fundamentals remain strong. Following up on our note from this morning, we have provided additional details on XO's progress on migrating upstream with more data-focused offerings and its ability to drive on-net revenue growth.

Larger Customer, More Data. The trends below demonstrate XO is successfully migrating its strategy upstream to larger customers. Comparing 4Q to 3Q, average VGEs per customer increased 13%, average revenue per customer increased 4%, and revenue per building increased 6%. Additionally, this trend underscores the importance of the Concentric acquisition on XO operations. Concentric enriched XO's product suite and improved its ability to attract higher-end customers via differentiated service offerings. The offset to focusing on larger customers and data services is lower revenue per VGE, which declined 8% on a sequential basis (excluding dialup and shared hosting). The company estimates that data represents 90% of VGEs, and based on our calculations, XO is recognizing about \$5/data VGE/month and \$34/voice/VGE/month. Unfortunately, the company does not provide information on wholesale operations to determine what impacts this customer base may be having on results. However, given the company's low DSOs of 64.5 days, its wholesale customers are potentially of higher than average quality with stronger financial health versus the customers other service providers may be relying on to drive the top line.

	4Q99*	1Q00*	2Q00*	3Q00	4Q00
On-net Bldgs	1,320	1,485	1,738	1,761	1,947
Off Net Bldgs	28,656	31,797	43,264	47,221	51,345
Total Bldgs	29,976	33,282	45,002	48,982	53,292

VGE (000)	2,437	3,337	5,566	8,916	11,211
Customers	46,947	50,085	74,051	79,178	87,755
Rev per customer	655	728	817	880	916
VGE Per Bldg	81.3	100.3	123.7	182.0	210.4
VGE Per Customer	51.9	66.6	75.2	112.6	127.8
Cust Per Bldg	1.57	1.50	1.65	1.62	1.65
Rev Per VGE	12.62	10.93	10.87	7.81	7.17
Rev Per Bldg	1,026	1,096	1,344	1,422	1,508

*On-Net building count methodology was changed in 3Q00

Rev per customer and revenue per VGE exclude dial up and shared hosting revenue.

On-Net Focus. XO's ability to effectively leverage its network investment to drive greater margins and asset utilization will be the key to its ability to create long shareholder value, in our opinion. While asset utilization declined in 4Q from .47x to .41x on an annualized basis, we believe this is primarily a function of the company's lack of scale at this point, rather than a flawed model or misdirected sales effort. The company provided insight into its increased focus on on-net building penetration, including that it had recently increased sales force incentives to drive building yields. Specifically, motivating sales personnel the only way you can, the company widened the commission spread between on-net and off-net buildings.

Thus far, the company appears to be deeply penetrating on-net buildings. Half of XO's VGEs are driven by on-net customers, and each fibered building is generating the equivalent of 4.5 DS3. This is roughly 28 times more VGEs per building than off-net buildings. Fixed wireless deployment is in its infancy with an average of only three buildings per market. We would expect fixed wireless buildings to deliver multiple DS3s per building over time. Across the sector, radios are already in commercial use that can deliver 6 DS3s, while OC12 capacity is being tested on live customers.

Company's guidance of a 40% increase in on-net buildings in 2001 or roughly 750 new on-net buildings installed could prove conservative, if the company more heavily adopts the fixed wireless technology. We believe Winstar (1-Strong Buy \$17) has demonstrated the speed at which wireless buildings can be deployed by adding roughly 1,000 wireless buildings per quarter over the last two quarters.

	<u>Buildings</u>	<u>VGEs</u>	<u>VGEs/Bldg</u>
Fiber	1,862	5,604	3,009
Fixed Wireless	85	2	24
Off Net	<u>51,345</u>	<u>5,606</u>	<u>109</u>
Total	53,292	11,211	210

Company Description : XO Communications is building a end-to-end local & long distance network using fiber and broadband wireless to bypass the incumbents to provide high speed data and voice services to business customers in the U.S. and Europe.

Bradley Wilson (1.202.452.4709) - bjwilson@lehman.com

Saam Farhang (1.202.835.2791) - sfarhang@lehman.com

Disclosure Legend: A-Lehman Brothers Inc. managed or co-managed within the past three years a public offering of securities for this company. B-An employee of Lehman Brothers Inc. is a director of this company. C-Lehman Brothers Inc. makes a market in the securities of this company. This document is for information purposes only. We do not represent that this information is complete or accurate and it should not be relied upon as such. All opinions are subject to change. The securities mentioned may not be eligible for sale in some states or countries. This document has been prepared by Lehman Brothers Inc., Members SIPC.